COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE EFFECTS OF THE FEDERAL TAX REFORM ACT OF 1986 ON THE RATES OF KENTUCKY-AMERICAN WATER COMPANY	)))	CASE NO. 9815

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. The information requested herein is due no later than March 20, 1987. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. In response to the Commission's Order of December 11, 1986, responding utilities have made numerous adjustments to reflect the effects on revenue requirements of increases and decreases in tax expense resulting from the 1986 Tax Reform Act. In order to allow every utility the same opportunity to address the numerous elements contained in the various filings the following list of issues is provided. The effects of Items (1), (2) and (3) shall be addressed by all utilities. The effects of Items (4) through (20) should be addressed by each utility as applicable. For each item below, provide the dollar amount for each adjustment or, for items omitted, an explanation as to why the information is not being supplied. Include a detailed explanation and workpapers of how each amount was determined and a reconciliation of the sum of these adjustments to the total amount of revenue requirement affect included in the original application.

(1) Federal tax rate change - 46 to 34 percent.

(2) Amortization of excess deferred taxes.

(a) Depreciation related.

(b) Non-depreciation related.

(3) Unbilled revenues.

(4) Alternative minimum tax.

(5) Kentucky income taxes.

(6) Investment tax credits.

(7) Capitalized overheads.

(8) Capitalized interest.

(9) Depreciation.

(10) Vacation pay.

(11) ESOP.

(12) Pension expense.

(13) Uncollectible accounts and bad debt reserve.

(14) Provision for 80 percent of certain business expense deductions.

(15) Contributions in aid of construction.

(16) Customer advances for construction.

(17) Super fund taxes.

(18) PGAs.

(19) Cash flow.

(20) Payroll taxes.

2. Provide any comments you deem appropriate as to the procedure of adjusting rates effective July 1, 1987, to reflect the change in revenue requirements based on the lowering of the top corporate rate to 34 percent.

3. Exhibit RLF-1 page 2 of 2 of the testimony of Roy Ferrell, lists deferred taxes under the new and old tax law of $574,157 and $679,641, respectively. Please provide supporting documentation (working papers, etc.) that Kentucky-American used in its calculations.

4. Exhibit RLF-1 page 2 of 2 of the testimony of Roy Ferrell, lists depreciation expense under the new and old tax law of $2,671,103 and $2,713,192, respectively. Please provide supporting workpapers that Kentucky-American used in its calculations.

5. On page 14 of the testimony of Roy Ferrell Kentucky-American estimates that it will pay $111,124 in federal income taxes over the next four years due to the accumulated balance of unbilled revenues. Please provide the working papers supporting the calculation and the reasons Kentucky-American failed to include this adjustment in its tax calculation (Exhibit RLF-1).

6. The Tax Reform Act of 1986 states that any existing bad debt reserve be included in income ratably over the next four years. Does Kentucky-American have a balance in its bad debt reserve account, and if so why wasn't this account included in its tax calculation (Exhibit RLF-1)?

7. According to records bad debt expense was a component in the calculation of revenue requirement in Kentucky-American's last rate case (Case No. 9482). Please provide the reasoning for not including the decrease of $4,961 in the tax calculation.

8. The following are in reference to investment tax credit ("ITC"):

a. Has Kentucky-American reviewed the effects the reduction in ITC carry forwards required by the Tax Reform Act of 1986 might have on the amortization of ITC?

b. Kentucky-American proposed to increase revenues by $107,548 to show the effort of the loss of cost free capital due to the future elimination of ITC. Please explain why the loss of cost free capital would be reflected while the effects of the additional plant and investments are not reflected in the operations.

9. On page 14 of the testimony of Roy Ferrell Kentucky-American estimated the cost of replacing the employer stock benefit plan is approximately $30,000. Please provide the supporting documentation Kentucky-American used in calculating this estimate.

10. Provide the estimated cost Kentucky-American would incur if it were required to either increase or decrease its rates as a consequence of the Tax Reform Act of 1986 and also provide all supporting documentation.

Done at Frankfort, Kentucky, this 13th day of March, 1987.

PUBLIC SERVICE COMMISSION

Richard D. Heman, Jr.

For the Commission

ATTEST:

Executive Director